Daily Oil Bulletin

M&A Being Driven By Large Public Companies Selling Assets

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By Tom Pavic, CFA, Vice President, Sayer Energy Advisors

In the first half of 2016 approximately $15 billion in merger and acquisition ("M&A") activity took place in the Canadian oil and natural gas industry. Breaking this down further, $8.9 billion consisted of corporate transactions, overwhelmed by **Suncor Energy Inc.**'s acquisition of **Canadian Oil Sands Limited** for $8.3 billion, while there was $5.7 billion in asset sales completed. Putting aside for a moment the Suncor-Canadian Oil Sands transaction, due to the unconventional nature of Canadian Oil Sands' asset base (interest in Syncrude), property deals would account for 90% of the total M&A value in the first six months of 2016.

A significant number of the property sales were done by large publicly-traded oil and natural gas producers such as **Athabasca Oil Corporation, Encana Corporation, Enerplus Corporation, Husky Energy Inc.** and **Penn West Petroleum Ltd**. As a group, these companies sold approximately $3.8 billion or roughly 67% of the total $5.7 billion in assets in the first half of 2016.

The factors that led to these companies announcing and completing these asset sales was to reduce debt outstanding, streamline their operations and monetize non-core assets which in the present or in the near future would not be getting any capital or attention amongst the other opportunities these companies had in their respective portfolios. Another reason is to use the proceeds from the sales on further development of their core properties rather than raising additional capital through equity or debt financings.

Athabasca completed two significant transactions in the first six months of 2016 for total consideration of approximately $600 million. In January, Athabasca announced it had entered into a strategic joint venture with **Murphy Oil Company Ltd.** to develop Athabasca's Duvernay and Montney interests in the Kaybob area of Alberta. As part of the joint venture, Murphy paid Athabasca $250 million in cash at closing and an additional $225 million will be in the form of a capital carry whereby Murphy will fund 75% of Athabasca's share of development capital up to a maximum five year period. The other significant divestiture announced by Athabasca in the first half of this year was the sale of a contingent bitumen royalty to **Burgess Energy Holdings LLC** on its thermal oil assets for total consideration of $129 million. According to Athabasca, both transactions "*helped to further enhance the balance sheet and its financial sustainability*."

In the second quarter of 2016, Encana announced the sale of its interests in the Gordondale area of Alberta to **Birchcliff Energy Ltd.** for proceeds of $625 million. According to Encana, the reasons for the divestiture were the following, *"we are tightening our portfolio and sharpening our focus in the Montney where we expect to grow liquids production to 50,000 barrels per day by the end of 2018. This transaction further strengthens our balance sheet and gives us greater financial flexibility as we look to the future."*

Enerplus announced two significant dispositions in the first half of 2016 with the sale of its interests in the Ansell, Edson and Minehead areas of Alberta to **Tourmaline Oil Corp.** for $183 million, coupled with the sale of its interests in the Pouce Coupe area of Alberta to **Longshore Resources Ltd.** for approximately $96 million. According to Enerplus, it "*used the proceeds to reduce outstanding indebtedness providing additional financial flexibility. The divestment of these properties further increases the focus and concentration within Enerplus' portfolio."*

Both Husky and Penn West were the most active on the disposition front, announcing a total of approximately $2.4 billion in divestitures in the first six months of 2016, highlighted by Penn West's sale of its interests in southwestern Saskatchewan to **Teine Energy Ltd.** for $975 million and Husky's disposition of its interests in the Swift Current area of Saskatchewan to **Whitecap Resources Inc.** for $595 million. Subsequent to the second quarter, both Husky and Penn West announced they have completed a further $295 million and $75 million in divestitures respectively.

In addition to Husky and Penn West other publicly-traded companies which have completed significant asset sales in the third quarter of 2016 are **Paramount Resources Ltd.** and **Zargon Oil & Gas Ltd.** Paramount announced the sale of its interests in the Kakwa and Musreau areas of Alberta to **Seven Generations Energy Ltd.** for total consideration of approximately $1.9 billion. The consideration Paramount received consisted of $475 million in cash, 33.5 million class A common shares of Seven Generations (at the time of the announcement of the transaction valued at approximately $840 million) and Seven Generations' assumption of Paramount's senior unsecured notes due in 2023 with a value of approximately $584 million. Zargon completed the sale of its southeastern Saskatchewan assets to **TORC Oil & Gas Ltd.** for approximately $90 million.

We believe this trend will continue through the remainder of 2016 as public companies look to reduce debt and finance their capital expenditure programs through the sale of non-core assets. The most recent large publicly-traded company to announce it is marketing non-core assets is **ARC Resources Ltd.**, which has hired an advisor to market approximately 4,000 boe/d of production in Alberta and British Columbia.

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